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NATIONAL INTELLIGENCE DAILY CABLE

Saturday August 27, 1977 CG NIDC 77-200C

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NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Saturday, August 27, 1977. [redacted] The NID Cable is for the purpose of informing senior US officials.

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PALESTINIANS: Council Meeting Results

25X1 [redacted] *//The Palestine Liberation Organization's central council yesterday affirmed its support for earlier PLO pronouncements rejecting UN Security Council Resolution 242. The council's final communique castigated the US and Israel for ignoring Palestinian rights and called for a Middle East settlement based on UN General Assembly Resolution 3236. That resolution refers explicitly to Palestinian rights in the context of a settlement; it was voted against by both Israel and the US in 1974.//*

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25X1 [redacted] The PLO position on Resolution 242 is likely to be the subject of continuing talks among Palestinians during the next few weeks. Khalid Fahum, a central council member, has indicated that the body may hold another session within three weeks. Despite their negative public position regarding Resolution 242, Palestinian officials reportedly remain very interested in establishing a dialogue with the US but are wary of accepting the resolution without a guarantee of something more than just the beginning of talks in return. 25X1

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INTERNATIONAL: World Steel

25X1 [redacted] *Continued slow growth in world steel demand and large excess capacity are leading to more intense competition in world steel markets. More than a fifth of noncommunist steel capacity now lies idle, and there is little prospect for a strong upturn in production through next year. Major exporters will continue to push sales in already depressed foreign markets, thereby increasing the likelihood of import restrictions.*

25X1 [redacted] Steel orders slipped in the first half of 1977, as capital investment spending remained sluggish and steel consumers held large inventories. Through June, steel orders were down 4.7 percent from a year ago, with most of the slowdown coming in the second quarter.

25X1 [redacted] Most of the drop in orders occurred in West European countries, down an average of 6 percent. Steel orders in Japan remained unchanged in the first half. Other noncommunist countries recorded gains, mainly on the strength of increased orders from less-developed countries.

25X1 [redacted] Despite slackening demand, noncommunist steel production in the first half of this year almost matched the level of the first half of 1976. The relatively small decline in output compared with the larger drop in demand resulted in rising producer inventories. Even though some major producers increased output, they all continued to operate far below capacity. Japanese firms operated at only 74 percent of capacity, while the steel industry in the European Community operated at about 65 percent of capacity, down 2 percentage points from last year.

25X1 [redacted] We expect noncommunist steel production in the third quarter of the year to drop off in all major producing areas. Japanese producers forecast that third-quarter output will be

[redacted]

2 percent below the second quarter and 9 percent below the third quarter of 1976. In the EC, producers are also trimming third-quarter output in response to flagging orders and high inventories.

25X1 [redacted] Noncommunist steel output should make a moderate comeback in the fourth quarter, as increased activity in the auto industry and other seasonal factors strengthen demand.

25X1 [redacted] Unlike last year, when major producers were able to use a first-half surge in demand to raise steel prices, weak demand blunted first-half price increases this year, and EC export prices declined slightly. Even with price increases in the US, world steel prices remain nearly 20 percent below their peak level in early 1975.

25X1 [redacted] Some firms in major producing countries have announced plans for another round of price hikes starting in October. The continued bearish outlook, however, probably will force producers to modify or even drop their plans. Last year, producers had to withdraw price increases when market demand sagged in the second half.

25X1 [redacted] With steel consumption expected to grow only moderately over the next 18 months, excess capacity will continue to characterize the industry. If steel demand rises by 4 percent to 6 percent in 1978, as we expect, the industry will still be operating at about 78 percent of capacity--only 3 percentage points above the 1975 recession level. Capacity additions now under way will absorb most of the expected increase in output.

25X1 [redacted] Japanese producers have announced that they will cut back exports to the US as well as to some other developed countries in the second half of 1977, compared with a year ago. This reflects Japan's growing concern over possible trade barriers in key export markets as industry spokesmen in the West appeal to their governments for help. Despite the recent appreciation of the yen, Japanese producers maintain their apparent competitive advantage. Only a voluntary restraint of sales efforts prevents Japanese steel exports from matching last year's level or increasing.

25X1 [redacted] Major exporters, notably Japan and the EC countries, will be under increasing pressure next year to raise exports

[redacted]

in order to achieve more economical rates of capacity utilization and raise sagging profits. With the developing and communist countries likely to reduce or at best maintain their current levels of steel imports, Japan and other noncommunist exporters will be under pressure to expand sales to developed countries.

25X1 [redacted] We expect that Japanese steel producers will spur another export drive by early next year because of a sluggish domestic market, pervasive excess capacity, and low profit margins. Such an action would aggravate trade friction among the major producers and intensify the calls for market protection.

25X1 [redacted] Only a sustained period of strong economic growth in the developed countries would reduce the level of excess steel capacity to a point where import disruptions would abate. The likelihood of this occurring over the next 18 months is slim; forecasters are projecting moderate economic growth in these countries during this period.

25X1 [redacted] The recent action by some steel producers to shut down a number of marginal plants will do little to reduce the capacity glut. To date, announced closures total less than 1.3 percent of noncommunist capacity. In the meantime, major West European producers are sponsoring new steel facilities in order to modernize their steel capacity and lower unit output costs to compete with foreign producers. [redacted] 25X1

25X1 [redacted]

BRAZIL: Student Dissent

25X1 [redacted] *The large student protest in Sao Paulo, Brazil, this week appears to have been sparked by a "letter to Brazilians," which calls for an immediate return to constitutional government. Signed by nearly a hundred prominent law professors and jurists, the letter has become a front-page story in national newspapers and magazines and is now being circulated throughout the country for additional signatures. Although the military government is taking an increasingly hard line against public demonstrations, it has not responded directly to the letter.*

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[redacted]

25X1 [redacted] The letter was first read publicly early this month during an anniversary celebration at Brazil's most prestigious law school, in Sao Paulo. The drafting apparently began late last spring, however, after President Geisel had temporarily closed Congress and issued a series of major decrees, now referred to as the "April reforms." The letter notes that "Security and Development"--the slogan of the Geisel administration--has been the watchword of totalitarian regimes.

25X1 [redacted] Political reaction to the document has divided along predictable lines. Progovernment leaders have characterized it as injurious, even asserting that it is of "communist inspiration." Members of the opposition are attributing great political significance to it, and several retired military leaders see it as supporting their recent public statements urging the military to return to the barracks.

25X1 [redacted] The initial reading of the letter touched off an immediate public reaction in Sao Paulo, which has since spread to other urban centers. Students at the law school in Sao Paulo began a spontaneous parade through the downtown streets that soon grew into a peaceful demonstration of approximately 7,000 people. Although security officials did not interfere at the time, saying they did not consider it a "confrontation," they have since arrested several students who were involved. This week, police in Sao Paulo used force to disperse another demonstration by thousands of students.

25X1 [redacted] Otherwise, the government has not responded to the petition. Geisel and his top advisers have studiously avoided any public statement, and the presidential press secretary has refused to comment. The failure to respond to such a challenge will reinforce a growing belief that the Geisel government and the military high command are increasingly aware of the decline in popular support for their policies.

[redacted] Growing pressure from influential sectors of Brazilian society to return the country to democratic rule could conceivably raise the hopes of civilian politicians for obtaining high office--possibly the vice-presidency--after Geisel's term ends in 1979. It still seems unlikely, however, that the military--Brazil's only cohesive political institution--will be willing to return any real measure of power to civilians by that date.

25X1 [redacted]

USSR: Hard-Currency Trade

25X1 [redacted] *Soviet hard-currency exports rose sharply and imports were down slightly in the second quarter of this year, reversing the first-quarter trend, according to Soviet trade statistics. For the year as a whole, the hard-currency trade deficit should be less than $4 billion, compared with the $5-billion deficit registered last year and the record $6.4-billion deficit in 1975.*

25X1 [redacted] Soviet exports rose to $5.2 billion during the first half of this year, compared with $4.6 billion in the first half of 1976. With imports falling from $7.9 billion to $7.8 billion, the hard-currency trade balance improved by roughly $700 million over the first half of last year.

25X1 [redacted] Soviet statistics do not identify the commodity composition of these aggregate figures. Western trade data for the first few months of 1977 indicate that Soviet oil exports were down from the 1976 rate of 1 million barrels per day, but these data are inconclusive.

25X1 [redacted] Grain imports were roughly halved, falling to $900 million from $1.8 billion in the first half of 1976. US data show a 44-percent drop in US grain shipments to the USSR. Increases in Soviet nongrain imports, especially machinery and equipment, from hard-currency sources nearly offset the fall in grain deliveries.

25X1 [redacted] We expect that reduced imports of grain will result in a leveling off or a moderate decline in Soviet hard-currency imports in the second half of 1977, compared with the first
25X1 half. [redacted] 25X1

25X1 [redacted]

[redacted]

25X1 [redacted]

25X1 [redacted]

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BRIEF

Pakistan

25X1 [redacted] The secretary general of the Pakistan National Alliance has told the press that his party attaches the "highest priority" to the acquisition of a nuclear fuel reprocessing plant from France and that "under no circumstances would it abandon this project." He said the previous government had encountered difficulties because of former prime minister Bhutto's "credibility gap."

25X1 [redacted] The secretary general's statement does not firmly commit the alliance--which may well come to power in the election scheduled for October--but it is the most official party statement on the plant so far. Plutonium processed by such a plant could be used for the production of nuclear explosives if Pakistan violates the safeguards that have been placed on the operation of the plant. [redacted] 25X1

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